

## Message Text

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ACTION EUR-12

INFO OCT-01 EA-07 ISO-00 AID-05 CIAE-00 COME-00 EB-08  
FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02  
OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15  
STR-04 CEA-01 PA-01 PRS-01 /089 W  
-----221836Z 041329 /50

R 221643Z MAR 77  
FM AMEMBASSY BONN  
TO SECSTATE WASHDC 6699  
INFO AMEMBASSY LONDON  
AMEMBASSY PARIS  
AMEMBASSY ROME  
AMEMBASSY TOKYO  
USMISSION EC BRUSSELS  
USMISSION OECD PARIS  
USMISSION USBERLIN  
USMISSION NATO BRUSSELS  
USNMR SHAPE  
AMCONSUL FRANKFURT  
AMCONSUL MUNICH  
AMCONSUL BREMEN  
AMCONSUL DUSSELDORF  
AMCONSUL HAMBURG  
AMCONSUL STUTTGART  
CINC USAFE RAMSTEIN  
CINC USAREUR HEIDELBERG  
CINC EUR VAIHINGEN

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DEPARTMENT PASS TREASURY, FRB AND CEA

E.O. 11652: N/A  
TAGS: ECON, EFIN, GW  
SUBJECT: DEMAND SHARPLY DOWN IN JANUARY:  
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ARE THE STATISTICS TO BE TRUSTED?

REF: BONN 385

1. THE JANUARY INDUSTRIAL NEW ORDERS INDEX, JUST  
PUBLISHED AFTER A TWO WEEK DELAY BEYOND THE NORMAL  
RELEASE DATE, REFLECTED A DISAPPOINTING DEVELOPMENT.

THE SEASONALLY ADJUSTED TOTAL VOLUME INDEX DROPPED FROM DECEMBER'S 118 LEVEL TO 111 IN JANUARY. COMPARING THE TWO MONTH PERIOD OF DECEMBER-JANUARY WITH OCTOBER-NOVEMBER, THE PICTURE IS NOT SO BAD, AND IN FACT REFLECTS 10.7 PERCENT GROWTH AT AN ANNUAL RATE (S.A.A.R.). THE FRG AND BUNDESBANK ANALYSES STRESS THIS APPROACH, ARGUING THAT ONE MONTH'S DATA IS TOO SLIM A BASIS UPON WHICH TO FORM CONCLUSIONS. TAKING THE STILL LONGER VIEW OF COMPARING THE THREE MONTHS ENDING IN JANUARY WITH THE PRECEDING THREE MONTH PERIOD (AUGUST-OCTOBER), HOWEVER, SHOWS A 1 PERCENT (S.A.A.R.) DECLINE. GIVEN THIS MIXED PICTURE PLUS THE DATA HANDLING PROBLEMS DISCUSSED BELOW (PARAGRAPH 4), WE HESITATE TO CALL THIS ISSUE DEFINITELY ONE WAY OR ANOTHER, OTHER THAN TO SAY THAT THE LATEST NEW ORDER DATA IS NOT PARTICULARLY ENCOURAGING.

2. THE OVERALL INDEX DROP IN JANUARY DERIVED FROM A SLACKENING ORDERS PICTURE ON BOTH THE DOMESTIC AND FOREIGN FRONTS. IN THE FORMER CASE, THE SEASONALLY ADJUSTED VOLUME INDEX NUMBER DECLINED FROM 107 IN DECEMBER TO 104 IN JANUARY. THE TWO MONTH COMPARISON (DECEMBER-JANUARY OVER OCTOBER-NOVEMBER), HOWEVER SHOWED STRONG 14.6 PERCENT S.A.A.R. GROWTH; THE THREE MONTH NOVEMBER-JANUARY OVER AUGUST-OCTOBER) RATE WAS A LESS IMPRESSIVE 3.9 PERCENT. THE VOLUME OF ORDERS FROM ABROAD SANK A GOOD TWELVE POINTS IN JANUARY TO A LEVEL OF 135. THIS MEANT A 6.3 PERCENT (S.A.A.R.) DROP FOR THE TWO MONTH COMPARISON AND A PLUMMETING OF 26.5 PERCENT IN VOLUME IN THE LAST LIMITED OFFICIAL USE

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THREE MONTHS FROM THE LEVEL OF THE PRECEDING THREE MONTHS. IN THIS CASE, DESPITE DATA PROBLEMS, ONE CAN PROBABLY CLEARLY CONCLUDE THAT FOREIGN DEMAND FOR GERMAN GOODS HAS BEEN ON A DOWNWARD TREND IN RECENT MONTHS.

3. DISAGGREGATING THE JANUARY DOMESTIC ORDERS, THE DOMINANT FEATURE WAS THE STRONG SURGE IN DEMAND FOR CONSUMER GOODS (UP ELEVEN POINTS). CONTRIBUTING TO THIS WAS PROBABLY THE ANTICIPATION OF GENEROUS WAGE SETTLEMENTS AND POSSIBLY THE EXPIRING OF LONG-TERM PRIVATE SAVINGS PLANS WITH THE CONSEQUENT INCREASE IN CONSUMER CASH-ON-HAND. PARTIALLY OFFSETTING THIS WAS THE LACKLUSTRE INVESTMENT OR CAPITAL GOODS DEMAND SCENE (DOWN FIVE POINTS), A CONTRAST WITH THIS DEMAND SECTOR'S STRONG FOURTH QUARTER PERFORMANCE.

4. COMMENT: THE VERY LONG DELAY IN THE APPEARANCE OF THE ORDERS DATA WAS DUE IN PART TO THE SAME REVISION

OF METHODOLOGY MENTIONED IN OUR EARLIER REPORT  
ON THE INDUSTRIAL PRODUCTION SERIES (SEE REFTEL). THE

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ACTION EUR-12

INFO OCT-01 EA-07 ISO-00 AID-05 CIAE-00 COME-00 EB-08  
FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02  
OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15  
STR-04 CEA-01 PA-01 PRS-01 /089 W  
-----221838Z 041402 /50

R 221643Z MAR 77  
FM AMEMBASSY BONN  
TO SECSTATE WASHDC 6700  
INFO AMEMBASSY LONDON  
AMEMBASSY PARIS  
AMEMBASSY ROME  
AMEMBASSY TOKYO  
USMISSION EC BRUSSELS  
USMISSION OECD PARIS  
USMISSION USBERLIN  
USMISSION NATO BRUSSELS  
USNMR SHAPE  
AMCONSUL FRANKFURT  
AMCONSUL MUNICH  
AMCONSUL BREMEN  
AMCONSUL DUSSELDORF  
AMCONSUL HAMBURG  
AMCONSUL STUTTGART  
CINC USAFE RAMSTEIN  
CINC USAREUR HEIDELBERG  
CINC EUR VAIHINGEN

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FEDERAL STATISTICAL OFFICE HAS AMPLIFIED THE DATA BASE,  
PRINCIPALLY BY THE INCLUSION OF THE HANDICRAFT INDUSTRY  
IN THEIR SURVEY BEGINNING JANUARY 1977. BUT, TO MAKE  
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IT COMPARABLE TO THE 1976 DATA, THESE WERE SUPPOSED TO HAVE BEEN REMOVED FROM THE SERIES PUBLISHED IN 1977. THROUGH ERROR, WE WERE TOLD BY THE ECONOMICS MINISTRY, THE NORTH RHINE WESTPHALIA STATISTICAL OFFICE, WHICH FEEDS DATA INTO THE FEDERAL SYSTEM, INCLUDED THE PUNCHED CARDS FOR HANDICRAFTS IN THEIR DATA PROCESSING AND LABELED THE OUTPUT AS IF IT WERE PURGED OF THIS DATA. AS A CONSEQUENCE, THE RESULTANT NATIONAL TOTALS (IN WHICH NRW HAS THE HEAVIEST WEIGHT) REFLECTED A FABULOUSLY GOOD JANUARY ORDERS PICTURE. THIS LED TO CONSIDERABLE OPTIMISM IN OFFICIAL CIRCLES ABOUT THE OUTLOOK AND INDEED TO GLOWING PUBLIC COMMENT FROM HIGH LEVEL FIGURES. HOWEVER, THE DATA WERE SO GOOD, IT ALSO INSPIRED SOME MISTRUST ON THE PART OF OTHERS WHO HELD UP PUBLICATION OF THE DATA UNTIL THE SOURCE OF THE SKEWING COULD BE LOCATED. (ALTHOUGH THE VOLUME DATA REPORTED HEREIN ARE NOT YET PUBLISHED, WE ANTICIPATE THAT THEY WILL SOON APPEAR IN THE BUNDESBANK'S REIHE 4). EVEN NOW, WE ARE TOLD, THERE IS SOME QUESTION AS TO HOW RELIABLE THE DATA ARE, FOR OTHER STATES COULD HAVE MADE THE SAME ERROR. FURTHERMORE, SINCE THE INDUSTRIAL PRODUCTION SERIES IS ALSO INVOLVED IN THE SAME DATA JUGGLING ACT, IT TOO IS SUSPECT. THE NRW OFFICIALS HAVE ASSURED THE FEDERAL OFFICIALS THAT THEY DID NOT COMMIT THE SAME ERROR IN THIS CASE, BUT THERE IS A RESIDUAL DOUBT AMONGST THOSE TO WHOM WE HAVE SPOKEN.

5. SOMEWHAT COMPLICATING THE ISSUE IS THE FACT THE WEIGHTS OF THE VARIOUS INDUSTRIAL SECTORS HAVE BEEN ALTERED BEGINNING WITH THE JANUARY 1977 DATA. IN ORDER TO PRESERVE COMPARABILITY, THE 1976 DATA WAS SUPPOSED TO HAVE BEEN REVISED TO REFLECT THIS METHODOLOGY CHANGE. THEREFORE, THE TABLES WHICH DETAIL THE FOREGOING ANALYSIS-INCLUDE ALL THE MONTHS OF 1976, ABOUT HALF OF WHICH ARE REVISED FROM THOSE PREVIOUSLY REPORTED AND PUBLISHED,

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AND THE JANUARY DATA SUPPOSEDLY PURGED OF HANDICRAFTS:

TABLE I  
NEW ORDERS VOLUME INDEX  
SEASONALLY ADJUSTED (1970 EQUALS 100)

1976	TOTAL	DOMESTIC	FOREIGN
------	-------	----------	---------

-----  
JAN 108 100 136  
FEB 108 100 132  
MAR 111 106 128  
APR 109 100 135  
MAY 109 100 134  
JUNE 110 99 147  
JULY 127 99 226  
AUG 115 102 160  
SEPT 114 103 147  
OCT 113 103 145  
NOV 112 103 140  
DEC 118 107 147  
1977  
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INFO OCT-01 EA-07 ISO-00 AID-05 CIAE-00 COME-00 EB-08  
FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02  
OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15  
STR-04 CEA-01 PA-01 PRS-01 /089 W  
-----221835Z 041396 /50

R 221643Z MAR 77  
FM AMEMBASSY BONN  
TO SECSTATE WASHDC 6701  
INFO AMEMBASSY LONDON  
AMEMBASSY PARIS  
AMEMBASSY ROME  
AMEMBASSY TOKYO  
USMISSION EC BRUSSELS  
USMISSION OECD PARIS  
USMISSION USBERLIN  
USMISSION NATO BRUSSELS  
USNMR SHAPE  
AMCONSUL FRANKFURT  
AMCONSUL MUNICH  
AMCONSUL BREMEN  
AMCONSUL DUSSELDORF  
AMCONSUL HAMBURG

AMCONSUL STUTTGART  
CINC USAFE RAMSTEIN  
CINC USAREUR HEIDELBERG  
CINC EUR VAIHINGEN

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JAN 111 104 135

TABLE II  
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NEW ORDERS VOLUME INDEX - DOMESTIC  
INVESTMENT AND CONSUMER GOODS  
SEASONALLY ADJUSTED (1970 EQUALS 100)

1976	INVESTMENT GOODS	CONSUMER GOODS
----	-----	-----
JAN	96	104
FEB	96	106
MAR	99	105
APR	97	103
MAY	93	105
JUNE	92	102
JULY	94	99
AUG	104	102
SEPT	104	106
OCT	104	100
NOV	105	101
DEC	111	99
1977		
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JAN	106	110

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## Message Attributes

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**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** INDUSTRIAL DEVELOPMENT, MARKETS, FINANCIAL STABILITY, ECONOMIC REPORTS  
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**Copy:** SINGLE  
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**Decaption Note:**  
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**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 22 May 2009  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
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**Executive Order:** N/A  
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**Litigation History:**  
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**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 6  
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**Previous Handling Restrictions:** n/a  
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**Retention:** 0  
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**Review Exemptions:** n/a  
**Review Media Identifier:**  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
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**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** DEMAND SHARPLY DOWN IN JANUARY: LIMITED OFFICIAL USE LIMITED OFFICIAL USE  
**TAGS:** ECON, EFIN, GE  
**To:** STATE  
**Type:** TE  
**vdkgvwkey:** odbc://SAS/SAS.dbo.SAS\_Docs/9afa34b4-c288-dd11-92da-001cc4696bcc  
**Review Markings:**  
Margaret P. Grafeld  
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EO Systematic Review  
22 May 2009  
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